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ESTABLISHMENT OF THE WORK PROGRAMME OF THE WORKING GROUP

Expansion of trading opportunities for developing countries

Note by the UNCTAD secretariat

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INTRODUCTION

1. The main purpose of the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries is

> "to analyse prospects for, and examine ways of, expanding the trade opportunities of developing countries for the diversification and growth of their export supply capability and for the enlargement and improvement of their export market opportunities." 1/

2. The purpose of this paper is to assist the Working Group in carrying out its mandate. The paper identifies a number of issues falling under the terms of reference. Its objective is to identify the important issues and to provide possible approaches for the work programme of the Working Group.

3. An important aspect of the terms of reference is the call for the sharing of national experiences. Hence, this paper attempts to identify the areas in which such experiences might be requested by the participants. It also includes suggestions regarding additional information, data or analysis that the Working Group might find useful.

4. The broad areas of inquiry, as specified in the terms of reference, are (1) possible liberalizations undertaken by trading partners that might enhance the export opportunities of developing countries, and (2) possible national measures by developing countries that might enhance their export opportunities.

5. The export opportunities for developing countries depend critically on three factors. The first is the general environment and growth of the world economy. Changes in the access of exports from developing countries to foreign markets constitute the second factor. The third factor concerns the efforts made by the developing countries to enhance their own export supply capabilities.

6. This issues paper acknowledges the importance of all three factors. The first is discussed in chapter I. Chapter II deals with issues regarding market access and the commercial policies of the trading partners of developing countries, while chapter III is concerned with export supply issues.

Chapter I

THE SETTING

7. At present the world economy is not performing well. The economies of most of the developed countries are in recession. Although political leaders claim that recovery is under way, momentum of the recovery is very weak. It is anticipated that this trend will continue and that the recovery that is imminent will be lethargic. 2/

8. The recession exists at a time when world leaders are entering into arrangements that might significantly alter the world trading environment. The efforts to establish a single market in the European Community (EC) are likely to include free trade arrangements with other countries in Western Europe, as well as some type of trading arrangement with the countries of Central and Eastern Europe. The events in the Americas include the North American Free Trade Agreement (Canada - United States - Mexico) and a number of trade blocs in Central and South America. The United States has also announced its intention to negotiate free trade arrangements with other countries in the hemisphere, beginning with Chile. The likelihood of an Asian-Pacific trade bloc is currently uncertain, as is the outcome of the Uruguay Round.

9. What are the prospects for the future? In the near term the outlook is for a weak recovery. 3/ The problems of the world economy and short-term prospects present a very poor environment for developing countries. However, the time frame for the Working Group extends through 1994. Thus, a longer time horizon is more relevant.

10. The longer term prospects for the world economy are less gloomy. The OECD has released projections for the global economy in the 1990s and beyond which are generally optimistic. 4/ The OECD first notes that the recession has led many firms to shed redundant workers, thus becoming stronger and leaner so as to take advantage of the recovery when it arrives. The projection is based on an assumption of reasonably stable financial markets, with a caveat for caution. With the moderation of the debt crises, private consumption and investment are primed for recovery. The problems for the world economy posed by the disruption of Central and Eastern Europe are not unduly burdensome; this region will not be too heavy a drag on the recovery or subsequently.

11. The quantitative projections are for an average annual growth in world output of around 3 per cent over the decade; North America and OECD Europe 2.5 to 3 per cent; Japan between 3 and 4 per cent; Asia and the Pacific about 5.5 per cent with the NICs somewhat higher; Latin America will grow by roughly 3 per cent; Africa will grow more slowly; and the OECD projects the return of positive growth to Central and Eastern Europe by late in the decade, after a prolonged period of structural adjustment.

12. This essentially optimistic forecast for the world economy should provide some reassurance to the developing countries that their export prospects are bright. These prospects are also enhanced by the dramatic globalization of the world economy and the increasing participation of the developing

countries. The move towards increased globalization has been stimulated in part by the growth of multinational enterprises and by the significant increase in joint ventures and subcontracting arrangements. 5/

13. These projections are for a world economy that is unchanged by policy initiatives but changed by the evolutionary events described above. However, policy initiatives can also have a powerful effect on the performance of the world economy. A recent study estimates that the elimination of all tariffs and non-tariff measures currently affecting world trade would result in a 2 per cent increase in world GDP and a 12 per cent increase in world trade. 6/ The developing countries would experience a 2.5 per cent increase in GDP; Latin American and the NICs would realize a 4 per cent increase. A successful completion of the Uruguay Round, as currently envisaged, might produce welfare gains of between one third and one half of these estimates.

14. According to some of these studies the countries that are likely to gain the most from trade liberalization are the middle-income countries which currently have moderate to high trade barriers and are emerging suppliers of manufactured products. They benefit from their own liberalizations, from better access to export markets, and from higher rates of growth for consumption and trade in respect of manufactured products.

15. It must be recognized that the effect of the world economic environment on the export opportunities of particular developing countries will be as diverse as the diversity among the developing countries. This diversity is partly due to circumstances beyond the control of national governments, such as natural resource endowments. But it is also partly due to the package of economic policies selected by the governments.

16. One outcome that might emerge from the Working Group is the identification of, and recommendations regarding, those issues that have important implications for the export opportunities of developing countries. The importance of particular issues might be related to the performance of the world economy as well as trade liberalization measures that might be introduced subsequent to the Uruguay Round of multilateral trade negotiations. The Working Group might wish to preface its concluding report with its assumptions about the influence of the world economy on export opportunities for developing countries.

Chapter II

ENLARGEMENT AND IMPROVEMENT OF EXPORT OPPORTUNITIES

A. The role of trade measures 7/

17. As a result of post-war agreements, tariff levels are no longer considered the most important barrier to trade. Current attention has increasingly been directed towards the rather broad range of other instruments used by governments to protect domestic industry from import competition. The list of these so-called non-tariff measures runs the gamut from controversial anti-dumping and countervailing duties to GATT-sanctioned escape clause action and export restraints negotiated under the Multi-Fibre Arrangement (MFA), and further extends to extra-GATT voluntary export restraints on various products. The measures used range from explicit limits on trade such as import or export quotas to more subtle measures such as customs procedures or health and safety regulations.

18. This chapter discusses issues relating to those barriers that most seriously hinder the access of developing countries' exports to world markets. Though tariffs are no longer the most serious barrier, there are instances in which they do constitute an important hindrance. These issues will be treated first, followed by a consideration of the more important non-tariff measures.

1. Tariffs

19. The discussion of tariff barriers will emphasize (1) products of export interest to developing countries that face high tariffs in export markets, (2) the escalated structure of tariffs that discourages developing countries from exporting their indigenous raw materials in a processed (value added) form, and (3) preferential tariff programmes that provide export opportunities for developing countries. These issues are discussed in turn.

(a) MFN tariffs: products facing high tariff rates

20. Many products of export interest to developing countries face high MFN tariffs in the markets of some developed countries. The lowering of these high tariffs might provide important export expansion opportunities for developing countries.

21. After the Tokyo Round of multilateral trade negotiations the average levels of tariffs on manufactured products in developed market-economy countries were around 5 per cent (GATT 1980). However, averages often mask more than they reveal about the true story. In fact, many products still face high tariffs, including products of export interest to developing countries.

22. A recent UNCTAD study examined products facing high tariffs. 8/ For the EC, approximately one third of the products defined in the tariff schedule face tariffs above 10 per cent ad valorem; almost one third of these products face tariffs greater than 50 per cent. 9/ Comparable figures for Japan and the United States are not so high. Just under 20 per cent of the products defined in the tariff schedules of Japan and the United States face tariffs

above 10 per cent; less than one per cent of the products face tariffs greater than 50 per cent. Nevertheless, it is valid to conclude that many products of export interest to developing countries face high tariffs.

23. Two qualifications are necessary. First, some of the high tariff products face other barriers to trade such as quotas. In such cases, the elimination of high tariffs would not have the expected trade expanding effects. The second qualification is that some of the high tariff products currently benefit from reduced duty treatment under the generalized system of preferences (GSP). In such cases, the restrictive effects of high tariffs are presently being offset by GSP treatment. The Working Group might wish to direct the secretariat to identify those products facing high tariffs which are of significant export interest to developing countries. The lowering of these high tariffs might provide important export expansion opportunities for developing countries.

(b) MFN tariffs: escalated structure of tariff rates

24. The structure of tariffs can have a restrictive effect on trade that is much greater than indicated by the level of the tariff on particular products. The tariff structure shows how tariff rates change as the stage of processing is raised. For example, in most developed countries the tariff structure is escalated. This means that raw materials are typically cleared through customs duty-free or subject to quite low tariffs. Higher stage products, i.e., semi-manufactures or intermediate components and materials, are subject to moderate rates of duty with the highest tariff rates applied to finished goods. Such tariff structures discourage countries from processing indigenous raw materials into higher value intermediate or final goods.

25. Identifying the trade expansion opportunities for developing countries that would result from the elimination of escalation in tariff structures begins with a quantification of the exports from developing countries that involve unprocessed commodities and industrial raw materials. The next step would be to examine the tariff structures in the major export markets. Finally, the benefits of the processing value added must be compared with the tariff penalties imposed by the escalated structure. A list of unprocessed commodities currently exported from developing countries is provided in annex I.

26. In those cases in which the escalated structure of tariffs poses a significant and important discouragement to adding value in developing countries, ways of eliminating the penalties imposed by the tariff structure should be sought. One approach might be to negotiate a flat tariff structure whereby the tariff rate applicable to processed products would be the same as that applicable to the respective raw material. A second approach might be to include processed products in the GSP schemes of the countries with escalated tariff structures.

27. The Working Group might request the secretariat to carry out a study to identify the products and markets for which a reduction of tariff escalation would provide developing countries with important export expansion opportunities.

(c) Preferential rates

28. Strictly speaking, preferential trade programmes do not hinder the access of developing countries' exports to markets. These programmes are included within the scope of this issues paper because they have provided important trade expansion opportunities for developing countries.

29. The broadest system of tariff preferences favouring the exports of developing countries is the generalized system of preferences (GSP). 10/ This programme includes 11 GSP schemes and more than 150 beneficiary developing countries. 11/ The programme provides for preferential duty reductions on imports from the beneficiary countries. Thus, importers have an incentive to switch their sources of supply to developing country exporters. The lower tariff rates applicable to imports from developing countries also provide an incentive for these imports to displace domestic output in the preference-granting country.

30. There are a number of other preferential programmes that favour exports of developing countries. 12/ Each of these systems is somewhat similar to the GSP programmes. And each system could provide trade expanding opportunities for developing countries.

31. The GSP is a proven instrument for expanding the export opportunities of developing countries. It currently covers some $60 billion worth of exports from developing countries. 13/ The secretariat has an ongoing responsibility to identify opportunities for improving the GSP so as to enhance the export interests of developing countries. The Working Group might wish to make recommendations for enlarging the scope of the GSP. The Working Group might also request the secretariat to monitor and identify opportunities for improving the other preferential systems to enhance the export interests of developing countries.

2. Non-tariff barriers

32. The list of non-tariff measures ranges from explicit limits on trade such as import or export quotas to more subtle measures such as customs procedures or health and safety regulations. In general, the explicit measures can be expected to have more restrictive effects on trade flows; it is these measures that will be discussed. 14/

(a) The GATT Multi-Fibre Arrangement (MFA) for textiles and apparel

33. The textile and apparel sectors are among the most protected sectors in the world. Under the MFA, exports from more than 30 developing countries are limited by export quotas negotiated bilaterally with one or more importing developed countries; the trade involved is roughly $40 billion in value. Clearly, this protection discriminates against the export interests of the developing countries.

34. The MFA has been extensively studied by governments and the academic community. This body of literature concludes that, on average, textile and apparel prices are roughly 25 per cent higher as a result of trade restrictions, including high tariffs and MFA export quotas. The high prices

do provide quota rents to the exporting developing countries. However, these quota rents must be shared with developed country governments which collect the high tariffs; the developing country exporters end up with about one half of the quota rents. In value terms the estimated benefits to developing countries as a group from the elimination of the MFA range up to $50 billion. 15/ This represents a doubling of export earnings derived from the textile and apparel sectors.

35. Identifying the trade expansion opportunities that would result from the termination of the MFA programme is quite complex. Certainly, exports of textiles and apparel from developing countries to developed countries would increase dramatically. It is safe to predict that the benefits to developing country exporters from the increased volume of exports would more than offset the losses caused by the elimination of quota rents. The developed countries would face significant adjustment problems in the short run. However, over time the welfare benefits to developed country consumers would far exceed the short-term adjustment costs. 16/

36. A final point, trade in textiles and apparel is limited by high tariffs as well as MFA export quotas. In order to maximize the trade expansion opportunities that would result from a termination of the MFA programme, the high tariffs would also have to be reduced.

37. If the MFA were to be phased out as a result of the Uruguay Round of multilateral trade negotiations, it is imperative that all developing countries be informed regarding the likely effects of such an event on their export volumes and export earnings throughout the phase-out period and beyond. The diversity of developing country situations will result in very different experiences under a phase-out of the MFA.

(b) Other non-tariff measures

38. There are a multitude of other non-tariff measures that hinder the export interests of developing countries. 17/ Among the most important to developing countries are import quotas and variable levies on agricultural products, voluntary export restraint agreements, anti-dumping and countervailing duty actions, and import limitations on manufactures. 18/

39. Identifying those non-tariff measures that most seriously affect exports of developing countries is a problem because the requisite data are subject to conflicting forces. Since the emphasis is on products of export interest to developing countries, a logical approach is to concentrate on those products subject to non-tariff measures that are exported in large volumes by developing countries. However, the volume of trade is influenced by the degree of restrictiveness of the non-tariff measures. In the extreme case, the most restrictive measures would result in very small trade volumes. In contrast, those measures that are least restrictive, and therefore of least concern, might result in very large trade volumes.

40. There is little doubt that the export interests of developing countries are seriously hampered by non-tariff measures. The trade expansion opportunities for these countries would be significantly enhanced if such measures were to be liberalized. And the developing countries could take

advantage of many of these opportunities without major problems in the expansion of their export supply capabilities and without significant new efforts in the area of export promotion and marketing.

41. The work conducted by the secretariat to date in developing its non-tariff measures data base, in constructing analytical tools to estimate the effects of these measures on the export opportunities of developing countries, and in monitoring the trade subject to non-tariff measures is only a beginning. The Working Group might consider the various non-tariff measures with a view to suggesting priorities to guide further work on these measures.

42. A newer issue involves the protection of the environment. Current GATT rules authorize a country to introduce policies and practices to protect the national environment. However, such measures generally impose costs on producers, who will be at a competitive disadvantage vis-à-vis producers in countries with lower environmental standards. Many developing countries will evaluate the benefits and costs of environmental standards and conclude that the costs would jeopardize their more important goal of economic growth. The international concern is that powerful importing countries will use trade sanctions to coerce less powerful countries to adopt the environmental standards favoured by the powerful countries. Such extraterritorial enforcement of environmental standards through the use of trade sanctions is a violation of current GATT rules. Nevertheless, such sanctions have been used and are likely to be used in the future. The Working Group might wish to solicit national experiences regarding this issue with a view to determining the extent to which environmental policies might adversely affect the export opportunities of developing countries.

3. Restrictive business practices and competition policies

43. Restrictive business practices are actions taken by enterprises to limit competition in order to create or to maintain their dominant position in a market. The actions might involve collusive agreements among competing firms (e.g., to fix prices or share markets) and the imposition of restraints on suppliers, distributors, subcontractors, or joint venture entities (e.g. tied selling, resale price maintenance, exclusivity of markets, export prohibitions, etc.).

44. With the relative moderation in the use of governmental barriers to trade resulting from multilateral and bilateral agreements, enterprise trade distortions and anti-competitive practices take on greater importance. Moreover, the economic reforms that are being implemented by developing countries and the countries of Eastern Europe are aimed at increased use of market mechanisms and competitive forces. With this greater emphasis on market signals, enterprise practices to circumvent market forces can pose serious obstacles to the achievement of the desired outcomes. To safeguard the effectiveness of market forces, national anti-competition polices can be of significant benefit. However, at the present time there is no international counterpart for discipline in this area.

45. UNCTAD has been active in this area since the 1970s. In 1980 a "multilaterally agreed" Set of Equitable Principles and Rules for the Control of Restrictive Business Practices (RBPs) was adopted by the General Assembly.

The Intergovernmental Group of Experts on Restrictive Business Practices meets annually to monitor the work in this area which includes, in particular, technical assistance to countries wishing to adopt national competition legislation, and procedures and organs for the control of restrictive business practices. The Working Group might wish to draw on the work of this Intergovernmental Group of Experts.

4. Trade among developing countries

46. The previous discussion has emphasized market access problems for developing country exports destined for developed countries. However, a significant potential also exists for developing country exports to other developing countries, i.e., trade among the developing countries themselves.

47. The following table presents data on aggregate trade flows between the developed and developing countries. In 1990 trade among the developing countries amounted to roughly $200 billion, 23 per cent of which involved fuels.

Table 1: World Trade Matrix

($billion in 1990)

Exporter	Importer		
	Developed countries	Developing countries	World
Developed countries	2 000	500	2 500
Developing countries	500	200	700
World	2 500	700	3 200

Source: GATT, International Trade 1990-91 (Geneva, 1992). The figures are highly rounded and strike a general balance between a region's imports and exports. They are intended to give rough orders of magnitude rather than precise quantifications.

48. During the most recent decade, world trade increased at an annual rate of 5.5 per cent, a rate significantly higher than that of trade among the developing countries as a group. However, the economic reforms being implemented by many developing countries are changing this picture dramatically. During the five-year period, 1985-1990, intra-developing country trade grew at an annual rate of 15 per cent (in current value). 19/ And there are instances of truly phenomenal growth. For example, regional trade liberalization steps have paid large and immediate dividends. Trade within Mercosur (Argentina, Brazil, Paraguay and Uruguay) grew by 40 per cent and within the Andean Group (Bolivia, Colombia, Ecuador, Peru and Venezuela) by 36 per cent during 1991 alone; bilateral trade between Colombia and Venezuela grew from $300 million in 1990 to $750 in 1991, owing to the removal

of virtually all customs barriers. 20/ Although these dramatic results might be explained in part by the low starting bases from which growth rates have been calculated, the potential for continued growth, even at slower rates, is nevertheless very promising.

49. UNCTAD has an ongoing responsibility to keep abreast of developments in this area. One of the four Standing Committees created by the Trade and Development Board pursuant to the Cartagena Commitment deals with economic cooperation among developing countries. Identifying and analysing export expansion opportunities evolving from ongoing events is a part of that mandate. Seeking additional modalities for cooperation to enhance export opportunities might also be warranted.

B. The role of trade promotion and marketing 21/

50. Currently many developing countries are moving towards more market-oriented policies, including extensive efforts to expand exports. A central part of export expansion is export promotion and marketing.

51. Export promotion and marketing involve the following functions: (1) the identification of export sales opportunities, (2) product design, development and modification to meet the demands of particular export markets, (3) quality control, (4) adequate export financing, (5) appropriate packaging, (6) effective distribution, (7) correct analysis of costs and pricing, and (8) effective product promotion and sales activities (e.g., trade contacts, commercial representation abroad, trade fairs and commercial publicity, etc.). 22/

52. International marketing of manufactured products is becoming more complex as a result of two emerging phenomena. First, products are becoming more differentiated. As exporters of manufactures must concentrate more and more on niche marketings, i.e., instead of addressing the broad category of buyers for a product, attention is devoted to a narrow range of buyers for particular types of the product. This is especially true for fashion apparel and accessories, footwear, and consumer electronics. Moreover, new technologies such as computer-aided design facilitate a greater variety of products with shorter product cycles. As a result, producers need closer links to the buyers, which might take the form of formal ties with producers and distributors in the export market countries.

53. The second phenomenon concerns the sophisticated management of inventories. Producers reduce interest costs on working capital by minimizing the stocks of inputs used in the production process through such techniques as just-in-time delivery. The sophisticated organization of distribution and transportation can also minimize the interest costs at the final goods stage. As with product differentiation, success will depend upon closer links between the buyer and the exporter. In addition to careful timing of deliveries, quality control is crucial.

54. If exporters in developing countries are to participate in world markets, they must be able to meet these export promotion and marketing challenges. However, for small and emerging firms the costs of these activities are extremely burdensome, especially when it is recognized that considerable

efforts are needed to overcome the extensive problems in entering new and foreign markets. Nevertheless, the rewards to the exporting country are substantial when success is achieved. In many cases, when risk of failure is included, the private cost of seeking foreign markets is greater than the private benefit; however, the public benefit from success far outweighs the public cost. In such cases, there is a strong rationale for public assistance to private firms attempting to enter foreign markets.

55. To improve their ability to solve export promotion and marketing problems, a number of types of assistance are available. For example, many countries have national trade promotion institutions; individual firms might establish linkages with other national institutions such as industry associations, chambers of commerce, etc.; there are a number of international institutions such as the UNCTAD/GATT International Trade Centre that provide technical cooperation; and technical assistance can be purchased from commercial services located in the market countries themselves.

56. The role of export promotion and marketing is central to exporting. Some firms do it better than others, whether they are from developed or developing countries. The issue at present is whether the export aspirations of developing countries are being frustrated because of inadequacies in export promotion and marketing; because of national production and export constraints, whether these are due to national infrastructure problems or firm-specific problems; or again because of limitations in their access to export markets.

57. The Working Group might wish to request member countries to share their national experiences regarding the effectiveness of particular export promotion and marketing services, whether provided by national institutions, or international technical cooperation projects, or purchased from commercial service enterprises.

C. Improvement of trade-related information

58. The world of business is evolving in a more technological and complex environment. The advances in communication (both tangible and intangible) have made the world a smaller place. International trade has become more efficient in terms of physically moving goods from one country to another, providing for payment, and facilitating communication between buyers and sellers. The benefits derived from the advances in information flows have been truly immense.

59. There are two sources of the advancement in information flows. The first is pure technology: telecommunications, computer technologies, data transmission, satellites, fibre-optics and so on. The second is training, i.e., the human use of the available technology. Both the technology and the human elements are advancing at unprecedented rates; and these rates are both interdependent and independent. While this may sound like extra-terrestrial doublespeak, the complexities are real. For example, technological advances are not steady and predictable; significant breaks with the past occur from time to time. In some cases, such advances come hand-in-hand with advances in the human use of the technology, while in others human needs stimulate a

technological solution. In other cases again technological advances are the result of serendipity. Once available, new technologies generally create demands for their use.

60. These technological advances, and the human use of them, create problems and opportunities. A significant problem is the fact that the technological infrastructure is not evenly spread over the world. Many developing countries, in particular, lag far behind: their physical infrastructure is inadequate to compete in a modern world; the ability to use the new technology does not exist throughout the country; and the benefits of the technology are not fully understood by the business community.

61. In some areas of critical technology it is firms not governments that are leading the developments. As a result, certain economic activities can supersede the controls of government. For example, private international capital flows are so vast and fluid that even the largest Central Banks can no longer "lean against the wind" to control the value of a national currency. Such developments limit the meaning of economic sovereignty.

62. Moreover, certain advances involve proprietary technology that is not easily used by competing technologies. In some cases, a firm will intentionally adopt a conflicting technology as a strategy to gain loyalty from customers. Examples include scrambling of satellite signals by commercial broadcasters, the Apple vs. IBM personal computer, various TV broadcasting systems, SONY vs. VHS video cassette systems, etc. At issue is whether there is a need for international standards for various technologies and, if so, which technologies.

63. Another problem area is that technological advancement can dramatically change the pattern of comparative advantage over a relatively short period of time. Moreover, the advancement can take place in a seemingly unrelated activity. For example, computer-aided design has shortened the product life cycle making flexible productive facilitries necessary. This trend will conflict with the concept of long runs and economies of scale. The evaluation of investment projects is much more complex today. The gap between the "haves" and the "have nots" is in danger of widening rather than narrowing.

64. To date UNCTAD has contributed much to the developing countries owing to its technical cooperation efforts in such areas as the Automated System for Customs Data (ASYCUDA) and the creation of Trade Points. Future efforts to build on these successes might be given serious consideration. The Working Group might wish to draw on the work done by the Working Group on Trade Efficiency and the Working Group on Investment and Technology Transfer.

D. Implications of structural adjustment policies 23/

65. Market economies are in a continuous state of structural change. Some economic activities are emerging, others are on the wane. The optimal location of efficient production moves from one country to another. In addition, the pace of structural change in the developed countries has accelerated considerable during the most recent decade owing to such phenomena as technological progress, changing consumer tastes, accelerated product cycles, and the growing interdependence of the world economy.

66. While such structural change provides export opportunities for many firms and countries it also poses difficulties for the firms, workers and countries that are becoming uncompetitive. Ideally, resources engaged in uncompetitive activities should move to alternative economic activities in which they can be efficiently employed. Such structural adjustment would increase labour productivity and overall efficiency, and the rate of growth of economic output would increase.

67. Unfortunately, the benefits to the economy of structural adjustment are not clearly understood by the general public. Furthermore, in most developed countries the costs of adjustment are, in large part, paid by those who must adjust. It is no surprise that they press for defensive policies to maintain the levels of output, employment and income in their uncompetitive activities. In many cases, these pleas for government support and protectionist policies are favourably received by political leaders. Such protection has occurred in a number of product sectors of export interest to developing countries, including agriculture, textiles and apparel, footwear, consumer electronics, shipbuilding and steel. 24/

68. Structural change must be viewed with long-run economy-wide performance in mind. Resource reallocation and structural adjustment would improve the efficiency of the economy and provide higher standards of living for the citizenry. If the economic signals and reallocative responsibility are left to market forces, and if the costs fall wholly on those who must adjust, political pressures to avoid change will be strong and difficult to resist.

69. Few developed countries have comprehensive and effective adjustment assistance programmes. Few resources have been allocated to improving the mobility of labour so as to direct it towards its most productive use. Consequently, political pressure to avoid adjustment is strong. The design and implementation of more effective structural adjustment policies in all countries deserves attention.

70. The Working Group might wish to request that national experiences with structural adjustment policies, particularly those of developed countries, and their implications for the export opportunities of developing countries, be made available. The Working Group might also wish to consider whether structural adjustment policies are influenced by national transparency mechanisms.

E. Implications of trade liberalization measures

71. Trade liberalization, whether undertaken unilaterally or resulting from multilateral negotiations, enhances the export opportunities of trading partners. The major unilateral liberalizations involve the dramatic economic reforms being introduced by numerous countries, including developing countries and those in Central and Eastern Europe. The implications of such reforms for intra-developing country trade was discussed in sub-section (4). The effects of the reforms in Central and Eastern Europe might also enhance trading opportunities for the developing countries. The current Uruguay Round of multilateral trade negotiations covers issues of primary interest to developing countries, in particular tropical products, other agricultural

products, textiles and apparel, MFN tariff reductions, safeguard measures, unfair trade rules (anti-dumping and anti-subsidy or countervailing duties), and trade in services.

72. The secretariat has a current mandate to evaluate the effects of the Uruguay Round on the export prospects of developing countries. 25/

F. Implications of regional integration arrangements

73. Recent events in Europe and North America will alter the structure of the international trading system. In Europe, the anticipated completion of the Single European Market could have profound effects by creating a true common market. In addition, negotiations between the EC and the European Free Trade Area (EFTA) might significantly strengthen the economic linkages between these two groups of countries. Over time, more and more countries of Central and Eastern Europe might be brought into the European market.

74. Events in North America are not nearly as advanced, but the future evolution of the North American market is fairly clear. A North American Free Trade Area (NAFTA) agreement has been signed, though not yet ratified by national legislatures, and negotiations are proceeding towards the eventual incorporation of all countries in the hemisphere into a single free trade area.

75. It is difficult to quantify the effects of these events on the trading opportunities of developing countries. 26/ Some developing countries will certainly benefit, others will suffer, and many will be essentially unaffected. It is relatively safe to predict that those developing countries that participate in a regional bloc will benefit, otherwise they would decline to join.

76. The Working Group might wish to request the secretariat to monitor integration developments and to assess their implications for third countries. With appropriate policies these events can provide opportunities for developing countries to enhance their exports.

Chapter III

EXPORT SUPPLY CAPABILITIES AND NATIONAL POLICIES

77. Development of export supply capabilities is a wide-ranging issue which touches on a large number of areas. 27/ For example, it is related to general development strategy, macro-economic policies, industrial policies, trade policies, technological capacity, availability of finance, the institutional capacity of the government, etc. Moreover, it involves almost all sectors of the economy including the primary, manufacturing and services sectors. More importantly, the nature of the policies adopted for export expansion will often depend on the level of development and, as far as manufacturing exports are concerned, on the industrial base of the country, and the special characteristics of the economy. Consequently, experience shows that, while a number of developing countries in Asia, Latin America and Africa have succeeded in rapidly expanding their exports of manufactured goods, they have not followed a uniform set of policies.

78. This chapter will concentrate on the selective issues related to the development of supply capability for the expansion of exports of manufactured goods. In this connection, national trade policies and exchange rate policies will be considered, and references will also be made to other policies, e.g. technology issues and national trade institutions. The question of "fallacy of composition" becomes relevant when a large number of developing countries simultaneously attempt export expansion. This issue and the role of international support for development of export supply capacity, as well as the issues related to the ways of encouraging investment in export activities and impact of import liberalization on general economic development, are also addressed in this chapter.

A. National policies and incentives 28/

79. A country wishing to establish and/or develop competitive export sectors, or industries faces three basic issues which, for the sake of analysis, are presented in the form of three questions. The first is how to choose sectors and industries for export development. Should such a choice be left to the market mechanism or should the Government intervene? Secondly, if the decision is made for intervention in trade and in the domestic market, what policies should be pursued, e.g. should such intervention take place directly or through provision of price incentives? Finally, if price incentives are used, are these sufficient or are complementary measures necessary? In practice, countries may not necessarily take the extreme positions since the optimal situation may depend, as mentioned earlier, on the characteristics of each country, its level of development, its initial industrial base and its development objectives. Accordingly, no universal answer can be given to these questions. Nevertheless, countries can learn from the experience of others while taking into account their own particular situation. For this purpose and to provide the necessary background for analysing the experience of individual countries, an attempt is made below to outline issues related to the above-mentioned questions.

1. Trade policies

80. Policies for establishing, developing and diversifying exports are not separate from those related to making them competitive. Generally speaking, export development could encompass various sectors of the economy (i.e. manufacturing, primary commodities and services). One of the important issues in creating export capabilities is the choice of industries, i.e. how sectors/industries are to be chosen? There are three ways of making the choice: through (i) the market mechanism, i.e free trade; (ii) by a mild and uniform support for the domestic sectors/industries; and (iii) by identifying particular industries/sectors and providing them with selective support.

81. Behind the argument for free trade is usually the law of static comparative advantage. The allocation of resources is left to the market which, it is argued, will lead to both "productive" and "economic" efficiency. The counter-argument is that in developing countries, at least in the early stages of development, the market is often non-existent or fragmented. 29/ More importantly, even if free trade could achieve efficiency in a static sense, in a dynamic sense the market might fail to achieve a comparative advantage. The main argument about market failure is the existence of dynamic externalities, economies of scale and the failure of the capital market to provide the necessary funds for industrial development. 30/ Hence, government intervention, e.g. infant industry protection, would be required "at least to supplement the private initiatives" and overcome market failure.

82. Even when the protection of infant industry is accepted, the critical issue continues to be the modalities, e.g. uniform, vis-à-vis discriminatory, application of protection, the tools of protection, the choice of industries for export promotion, the rate and duration of protection, the nature of policies applied over time, and the speed and sequences of trade policy reforms.

(a) Export expansion and selectivity and uniformity in trade policy

83. It is generally agreed that in theory the first best policy tool to use for protecting an industry or a sector is to take direct measures aimed at production, or factors of production, through taxes and subsidies. However, in practice, the use of trade policy is preferred despite being second-best, mainly because of the financing problems involved. Even when the use of trade policy is accepted there are two different views on degree and the nature of protection. On the one hand only a uniform and small tariff rate could be applied to all industries both for domestic markets and for exports, providing thus a "neutral incentive structure". On the other hand, a discriminatory protection system may be applied. It is argued that uniform nominal protection leads to price distortion in any case because it would not result in a uniform effective protection rate owing to the different import intensities of different industries. Selectivity in protection policies is preferred on three grounds: technological dynamic externalities; scarcity; and external dis-economies. Different industries are often subject to different externalities, so they should be given different incentives. Only if various industries involve the same degree of dynamic externalities should they be treated uniformly. 31/

(b) The choice of industries

84. The question of the choice of industries by the Government for export promotion remains one of the most difficult. While factor endowment and dynamic externalities play a role, it is sometimes argued that "comparative advantage is made, not given". Some economists have proposed low foreign exchange intensity of products or domestic resource cost (DRC) as criteria for the choice of industries. Nevertheless, these are static indicators. Import intensity, cost and returns of industries may change over time because of external economies of time. The experience of the Republic of Korea shows that by a process of learning by doing, and trial and error, "winners" are made, and as exports of certain items expand their proceeds are spent on new items for export diversification and upgrading. 32/

(c) Dynamism in trade policy and stages of development

85. Should trade policy change over time? As characteristics of countries and their export capacity differ at any given period in time, the characteristics and trade problems of a particular country may also change over time. Hence, it ought to follow a dynamic trade policy. This need is sometimes exemplified by the case of the Republic of Korea. This country started its industrialization by import substitution in the 1950s. As its industrial base developed, it applied a mixture of import substitution and export promotion strategy, the precise nature of which changed over time. While export incentives were given to industries that were close to maturity, certain new industries were simultaneously chosen for import substitution and the import content of the established industries was reduced. In the 1980s, the Republic of Korea has been reducing the import content of its investment and exports, which still amounts to some 36 per cent.

86. Obviously, not all developing countries will necessarily follow the same path, but the basic point is that a country may change its incentive structure - including trade policy - over time. Despite the need for dynamism, the importance of predictability and reliability is often emphasized since uncertainty reduces the incentive for export and output expansion. Moreover, an adjustment in trade policy usually involves problems of transition.

(d) Trade policy reform and problems of transition

87. More recently, the use of trade policy as a tool for export expansion is being advocated to a greater extent than before. Nevertheless, trade policy reform seems to assume different meanings depending on the approach adopted by a country for export expansion and diversification. To those who follow the "free trade" and "free market" approach, trade policy reform is synonymous with trade liberalization. While there is no general agreement on the details of trade liberalization measures, their main elements may be identified as follows:

- removal of import quotas, import licensing and other quantitative restrictions or their conversion into tariffs;

- reduction in the level and variability of import tariff rates;

- compensatory devaluation of the local currency.

88. The need for liberalization of the domestic capital and labour market, as well as macroeconomic stabilization, structural reform and privatization are also sometimes added as necessary conditions for the success of trade liberalization.

89. The Working Group may wish to request the interested member countries to inform the Group of their individual experiences with respect to the approach they have taken for export expansion, the policies pursued, the problems encountered and the results obtained. Countries might, in particular, elaborate on the relations between the levels of development and industrialization and the type of trade policies pursued, the way they have chosen industries for export expansion and the problems of transition encountered from import substitution to export promotion.

2. Exchange rates

90. Devaluation could be an element of trade policy reform either to compensate for the removal of trade restrictions or as a means of remedying exchange rate over-valuation. Devaluation is supposed to increase the incentive for the production and export of tradeable as against non-tradeable goods, thus encouraging investment in those areas. A different view is that, even when over-valuation is a problem, devaluation may not necessarily lead to export expansion and that other policies and measures like export subsidies have in practice been more effective. The case against the success of devaluation includes the following arguments. First, devaluation, instead of stimulating output, tends to add fuel to inflation unless it is combined with the complete abolition of import restrictions and a severe deflationary policy. But such a policy might result in an "over-kill" by reducing output. Secondly, when inflation and disruption in the production of manufactured goods are caused by a shortage of foreign exchange, devaluation cannot succeed; it will lead instead to de-industrialization. Thirdly, the dependence of the modern export sectors on imported inputs, and the debt strangulation position of developing countries would obviously add to the problem. Many developing countries have in fact suffered from import compression partly as a result of the need for debt servicing. Fourthly, when devaluation is undertaken by a large number of countries, it might be difficult for individual countries to improve their international competitiveness and market share because of the so-called "fallacy of composition", as will be explained below. Finally, it is argued that the establishment of an "appropriate exchange rate" and other incentives are unlikely to be sufficient *per se* to sustain a major expansion of manufactured exports, and that, in many developing countries, the development of export supply capabilities would require other measures to be taken prior to devaluation.

91. The Working Group may wish to request the secretariat to provide a comparative analysis of the impact of exchange rate devaluation on export

growth, investment and export and output diversification. The member countries may also be requested to share with the Working Group their experience in this respect.

3. Other factors and measures

92. Is trade policy alone sufficient to establish and develop efficient export capabilities? There is almost a general agreement that the role of trade policy is not significant - or not significant on its own. Even those who advocate free trade or a mild and uniform protection also agree with this view. Nevertheless, as of yet there is no consensus on the determinants of success and the degree and forms of government intervention. Various factors, separately or in combination, have been specified.

(a) Capabilities and investment

93. For example, the importance of sectoral policies and their interrelation has often been emphasized. For the industrial sector some reference is made to the role of two broad categories of factors: capabilities and institutions, and their interaction with each other and with incentives. Capabilities consist of the capacity:

> "of enterprises to respond to incentives which depends on the availability of adequate infrastructure, financial resource for (physical and capability building) investments, capital goods, of the right type at the right price, a network of industrial suppliers, consultants and service firms to permit efficient specialization and provide necessary inputs, supply of skills on the labor market, flows of information from domestic and foreign sources, and a technological infrastructure that helps provide basic services and support for technological activity". 33/

94. To develop these capabilities investments are required in most cases and this is one of the main factors in developing a sustainable export capacity. Investment is necessary for maintaining, expanding and/or adjusting the productive structure in the manufacturing sector. It is also necessary for the expansion of related back-up services and the industrial infrastructure. In the case of countries at an early stage of industrialization, the main role of investment is in establishing and developing the industrial base. For other developing countries, it is also essential for undertaking structural changes in the industrial base and responding to, or creating, new opportunities in the international market. In fact, it has been shown that structural changes within the manufacturing sector have played a significant role in the export performance of the NICs, and that investment has been the key macro-variable facilitating structural change. Investment also helps to respond to technological changes, thus enhancing the capacity to maintain or improve competitiveness in the international market.

(b) Technological capability

95. Technology is another important factor in international competitiveness. There are different types of technological change, ranging from (i) incremental innovation entailing small improvements in the existing array

of processes and products in different industries, and (ii) radical innovations illustrated by the emergence of new products or processes, to (iii) technological revolutions such as the introduction of micro-electronics. However, the technology variable is not the sole determinant of competitiveness and the effect of technological change on trade should be seen in this perspective. This is all the more necessary in that technology is becoming increasingly integrated into macroeconomic and microeconomic management at both the policy-making and the enterprise levels. Nevertheless, to adopt the new technology and the process of learning by doing seems to have been a significant element in the policy of the countries that have achieved a remarkable export expansion in recent years. The Working Group may wish to request member States to share their national experiences in this crucial policy area.

(c) National institutions

96. To create competitive export supply capabilities there seems to be a need for specialized institutions to execute government policies and interact with the private sector. Export financing is one of the main examples. Others are mechanisms to provide information, particularly market information, technical extension, standards training and other back-up facilities. 34/

97. The market may fail to provide sufficient finance for export activities, as mentioned earlier. Hence the Government is required to act. Apart from the importance of financing investment, exporters need financing at all phases of the production and sales cycle. At the pre-shipment stage, the exporter requires credit from banks for the purchase, manufacture, processing or packaging of goods, and at the post-shipment stage, he must bridge the liquidity gap between shipment of the goods and receipt of payment.

98. The capacity of the exporter to offer the buyer deferred and favourable payment terms is of particular importance in international competition. Stringent financial policies in many buyer markets, characterized by credit squeezes, also induce buyers to press for easier terms of payment. Furthermore, efforts being made by manufacturers and exporters in a number of developing countries to produce and export capital goods of greater sophistication will bring them into a field of international trade where medium-term and long-term credit terms have become a normal feature.

(d) Interaction between government and the private sector

99. More important than the elements outlined above is the nature of the interaction between the private sector, the Government and public institutions. The operation of efficient institutions requires political strength and the availability of skills to reduce market failure (to enable the private sector to respond to market signals) and to exercise discipline over private and public enterprises. 35/ In the case of the Republic of Korea, discipline consisted in penalizing poor performances and rewarding good ones; performance was judged in terms of meeting the targets for the export of selected products. Moreover, firms have been subject to various controls in exchange for government support. These controls applied to financial entry into the industry, prices, capital flight and taxation. As a result, the private sector has not only been supportive in responding to market signals,

but also in endeavouring to meet government objectives and targets. It is believed that similar measures for implementing a comprehensive industrial policy and adopting a "carrot and stick" approach to the private sector have been, by and large, taken in Japan and Taiwan Province of China. In the case of Japan, continuous discussion and debate between government authorities and private companies have helped to create a dynamic decision-making process. 36/

100. The creation of efficient institutions to provide industrial and export finance, information, particularly marketing information, technical extension, standards, training and other back-up facilities is also regarded as an important factor in capacity development and export expansion.

101. The Working Group may wish to look into the question of the type of national institution established for provision of back-up services for export expansion, particularly as regards marketing. The Working Group may also wish to look into other aspects of the industrial policies, such as the question of scale and the balance between large and small first; the role of resource-based industries, processing, sub-contracting and such back-up services as export financing.

4. The fallacy of composition

102. What would happen if all - or a large number of developing countries - were to attempt a rapid export expansion at the same time? Once again there is no clear-cut answer to this question as yet. For example, it is argued that if the policy of export-led industrialization pursued by the East Asian NICs is adopted by a limited number of countries, it may work. Nevertheless, if a large majority of developing countries were to try to pursue it at the same time, the resulting outpouring of manufactured exports might be more than developed markets could absorb. Hence, a protectionist response might be a consequence of attempts to generalize the East Asian model of growth. 37/

103. This argument is sometimes interpreted as pessimism as regards the expansion of exports of manufactured goods. In fact, however, the argument is generalized to include primary commodities. It is further argued that the resulting fallacy of composition could also lead to a significant decline in the export prices and terms of trade of exporting countries.

104. The Working Group may wish to request member countries to provide information on and an analysis of the evolution of their export expansion policies, the volume and prices of their export products and the effects of industrial upgrading on exports.

5. International support for development of exports

105. The trade policy reforms of developing countries have been undertaken in the 1980s and 1990 in very special international circumstances. First, the pace of the world economy has slowed down as compared with the 1970s and 1960s, and so has demand for exports of developing countries. Besides, the prices of primary commodities have declined substantially not only in real but also in nominal terms. As a result, the import capacity of developing countries has severely deteriorated. Secondly, as a result of the slow-down

of economic activities in industrial countries, protectionist pressure against products of export interest to developing countries has increased in a situation in which a large number of developing countries have changed their trade strategy towards outward orientation. Finally, the increased debt burden has forced many developing countries to intensify their import compression, and they have had to run a surplus in their trade balance. Furthermore, even the net financial flows from international financial institutions to developing countries have been negative in recent years.

106. The success of developing countries in their attempts to undertake trade policy reform for export expansion will largely depend on the support provided by the international community in relation to the following main issues. The first is the improvement by industrialized countries of access to their markets for products of export interest to developing countries through trade liberalizations and/or improved trade preferences, particularly for poor, small countries, as explained in detail in this paper. The second is easing the flow of imports to developing countries through a satisfactory solution to their debt problems and commodity price problem. Another is improving the conditionalities attached to financial flows to developing countries by the multilateral financial institutions, and reconsidering the recommendations made to these countries on the lines mentioned above. Finally, there is a need for adjustment in the international trading system in order to take the special situation of developing countries into account to a larger extent.

B. Export-oriented investment 38/

107. There are some developing countries, that have pursued deliberate policies to stimulate investment by domestic and/or foreign firms in export industries and achieved a degree of success. On the other hand, in a large majority of developing countries, far-reaching policy changes towards opening and liberalization have not led to the rapid growth and diversification of export industries. This may be due in part to the sluggish development of overall investment during the 1980s, which needs to be reversed. Many developing countries have to rely upon domestic investment and savings and domestic firms to participate in growing world markets: in about two thirds of these countries, foreign investments contribute less than 5 per cent of gross domestic capital formation. 39/

108. What makes investing in export-oriented activities more difficult than in domestic-market-oriented activities for developing countries? Starting an export business in an existing enterprise will usually involve heavy investment in adjusting products and production equipment to meet the needs of more demanding world market requirements regarding qualities, standards and prices. Substantial investment is needed to explore new export markets and build up export marketing channels. Export-oriented investment requires special management skills, and exposes firms to special investment risks. Many domestic enterprises of developing countries face major difficulties in raising long-term or venture capital financing for investment purposes.

109. Some of the developing countries, that have succeeded in transforming their domestically oriented industries into export industries relied heavily on concessional loan financing for investment as a major instrument. Many other developing countries have either a smaller domestic savings and capital

base or face stringent foreign financing requirements and debt problems and may therefore be in a less favourable position for relying upon such instruments. Several multilateral and bilateral facilities for external support to investment exist at present. The Working Group may wish to examine to what extent the facilities available are sufficient in terms of quantity and conditionality to meet developing countries' needs for productive investment in dynamic export sectors, including manufacturing industry and services.

110. What role could be played by international cooperation in support of the development of export-oriented investment in developing countries? Important areas where scope for increased international support could be explored may include financing of export-oriented investment in productive sectors and services; training in the design of export and investment policies by governments and in export management by enterprises; advisory services to governments and enterprises in launching overseas campaigns for attracting foreign investment to industries with export prospects; support for the establishment of investment promotion services at home or abroad; assistance in the identification and establishment of contacts and negotiations with foreign investment partners. It would also be interesting for countries having foreign direct investment (FDI) to exchange their experiences with regard to financing, advisory and tax measures. This would also apply to the impact which special or preferential access facilities for developing countries, such as the GSP, may exert on export-oriented investment in these countries.

C. Import liberalization in developing countries 40/

111. Does import liberalization lead to acceleration of exports and output? In what other ways could it influence economic development? It is not easy, in practice, to isolate the impact of import liberalization on certain economic variables from other factors since the situation of developing countries has been characterized by a number of changes in the 1980s. These include structural adjustment, trade policy reform, stabilization programmes and, most important of all, the emergence of import compression. Such compression was basically the result of an unfavourable external situation and the need for debt servicing. For the purpose of a simple theoretical analysis of the issues involved, we shall concentrate on import liberalization in isolation before allowing for other factors. To do so, the role of imports in output and export expansion in developing countries will first be briefly mentioned. Subsequently different arguments on the impact of import liberalization will be analysed.

1. The role of imports in economic development

112. In the case of developing countries, imports play a crucial role in economic development. Imports ease supply bottlenecks arising from natural and/or technical limits through provision of the relevant products. The domestic supply of raw materials is limited by natural factors and the supply of capital goods and intermediate inputs necessary for investment and capacity utilization is constrained by the developing countries' limited technological capacity. Moreover, imports ease inflationary pressures by increasing the supply of wage goods, which in turn contributes to the competitiveness of

domestic products for a given exchange rate in the international and internal markets. In essence, imports act as the "joker" of growth. The more rigid the structure of production, the more important the role of imports (and for that reason, the role of foreign exchange) in investment and the development process of developing countries. 41/

113. In the particular case of exports, the modern manufacturing sector is very import-intensive in developing countries and export activities are usually more import-intensive than production for the home market. Exports are therefore heavily dependent on imports. 42/

2. The impact of import liberalization

114. From the theoretical point of view the impact of import liberalization on export output and general economic development is not clear. Export success may to a large extent depend on the type of protection, the characteristics of the countries concerned, and the external situation. The experience of the member countries could provide evidence on the relevant issues.

115. The Working Group may wish to request the interested member countries to provide analytical studies on their experience of import liberalization and its impact on export expansion, output growth, employment and the structure of imports. The member countries may also provide the Working Group with information on the linkages between imports, industrialization and export expansion. Further, they may provide the Working Group with their experiences as regards the impact of debt servicing on the availability of imported inputs necessary for export activities.

Notes

1/ Terms of Reference of the Ad hoc Working Group on Expansion of Trading Opportunities for Developing Countries.

2/ See UNCTAD, Trade and Development Report, 1992, (UNCTAD/TDR/12, United Nations Publication, Sales No. E.92.II.D.7), for a review of the world economy and the implications for developing countries. Also see World Bank, Global Economic Prospects and the Developing Countries (Washington, D.C.: World Bank, 1992).

3/ See UNCTAD, Trade and Development Report, 1992, op. cit.

4/ OECD, Long-Term Prospects for the World Economy (Paris: 1992).

5/ The linkage between protectionism and globalization is discussed in T. Murray, "The determinants of the demand for protection", (UNCTAD background paper, 1992). The Working Group might wish to examine national experiences of countries that have participated, to a greater or lesser extent, in the globalization of the world economy.

6/ See C. Petersen, "Trade conflict and resolution methodologies", American Economic Review, May 1992, pp. 62-66.

7/ This section relates to paragraph 1 (d) of the Terms of Reference, i.e., the identification of "trade expansion opportunities for developing countries arising from liberalization of trade measures hindering the access of developing countries' exports to markets".

8/ See Erzan, R. and G. Karsenty, "Products facing high tariffs in major developed market-economy countries", UNCTAD Discussion Paper No. 22, February 1988. This study concentrates on high tariffs of developed countries. The trade expansion opportunities provided by possible liberalization of barriers to trade among developing countries is discussed in sub-section 4 below.

9/ The figures refer to the ad valorem equivalent of a tariff in those cases where the tariff is specific or a combination of a specific and ad valorem tariff.

10/ Some preferential trading systems do not favour developing countries, in particular trading blocs among developed countries. The issues regarding trading blocs are discussed in section F below.

11/ The 11 schemes include the EC as one scheme and the EFTA countries as one scheme.

12/ For example, the Caribbean Basin Initiative (CBI), Lome-ACP.

13/ See UNCTAD, "Fifteenth general report on the implementation of the generalized system of preferences" (TD/B/C.5/142), 28 February 1992.

14/ A recent survey of this issue is reported in UNCTAD, "Costs and consequences of non-tariff measures which adversely affect exports of developing countries" (TD/B/1284), 26 December 1990.

15/ This represents the estimated increase in export earnings and includes the losses in quota rents. See W. Cline, The Future of World Trade in Textiles and Apparel, rev. ed. (Washington, D.C.: Institute for International Economics, 1990).

16/ It should also be noted that the consumer benefits would accrue as a permanent income flow whereas the adjustment costs would be diminishing over time.

17/ This section emphasizes non-tariff measures imposed by developed countries that adversely affect exports from developing countries. The trade expansion opportunities to be derived from a liberalization of trade among developing countries is discussed in sub-section 4 below.

18/ See "Consideration of the question of definitions and methodology enclosed in the UNCTAD Data Base on Trade Measures", annex (TD/B/AC.42/5).

19/ UNCTAD secretariat calculations.

20/ See Business Latin America, 31 August 1992 and Latin American Special Report, June 1992.

21/ This section and the next relate to paragraph 1 (e) of the Terms of Reference, i.e. Consideration of the "role of trade promotion and marketing as well as the possible impact of improving trade-related information technology and flows on the trade of developing countries".

22/ This list excludes national economic policies designed to promote exports, because these policies are covered in chapter III below. The policies might include macroeconomic policies to promote exports, such as appropriate exchange rates, export and production subsidies, trade-related investment requirements, export performance requirements linked to the importation of inputs, etc.

23/ This and the following two sections relate to paragraph 2 of the Terms of Reference, i.e., Analysis and identification of "product and export market opportunities which are a consequence of developments such as: structural adjustment policies in various countries; trade measures, including liberalization measures such as those adopted to implement the results of the Uruguay Round; and measures and arrangements to promote regional intergration".

24/ See UNCTAD, UNCTAD VIII: Analytical report by the UNCTAD secretariat to the Conference (TD/358) (United Nations Publication, Sales No. E./92.II.D.3), 1992, p. 74.

25/ The Cargagena Commitment, paragraph 144.

26/ For a discussion of export opportunities from liberalizations of trade among developing countries, see subsection 4 of this chapter.

27/ See report by the UNCTAD secretariat, Measures and incentives for enhancing the competitiveness of sectors with export potential in developing countries: evidence and lessons from experience (TD/B/IPT/90), English only.

28/ This section relates to paragraph 1 (a) of the Terms of Reference, i.e. Consideration of "various national experiences in order to identify national measures, incentives and policies for enhancing the competitiveness of sectors and industries with an export potential".

29/ Myint, H., "Organizational dualism and economic development", Asian Development Review, vol. 3, No. 1 (1985), pp. 22-43.

30/ Arndt, H.W., "Market failure and underdevelopment", World Development, vol. 16, No. 2 (1988), pp. 219-229. For a summary of the arguments, see Corden, W.M., Trade Policy and Economic Welfare (Oxford: Oxford University Press, 1978).

31/ Stewart, F. and E. Ghani, "How significant are externalities for development", World Development, vol. 19, No. 6 (1991), pp. 569-594.

32/ Amsden, A.H. Asia's Next Giant: South Korea and Late Industrialization (New York: Oxford University Press, 1989).

33/ Lall, S., "Experiencing industrial success in developing countries", V.N. Balasubramian and S. Lall (eds), Current Issues in Development Economics (London: Macmillan, 1992).

34/ Lall, S., op. cit.

35/ Amsden, A.H., op.cit.

36/ Singh, A., "Close vs. strategic integration with the world economy and the market-friendly approach to development vs. an industrial policy", (Cambridge: Faculty of Economics, 1992) (mimeograph).

37/ Cline, R.W., "Trade policy in the 1980s", Institute for International Economics (Washington, D.C.: 1983).

38/ This section relates to paragraph 1 (b) of the Terms of Reference, i.e. "Ways to increase export-oriented investment in developing countries by domestic and foreign firms".

39/ World Investment Report: Transnational Corporations as Engines of Growth, United Nations Department of Economic and Social Development, Transnational Corporations and Management Division (ST/CTC/130) (United Nations Publication, Sales No. E.92.II.A.19, New York, 1992).

40/ This section relates to paragraph 1 (c) of the Terms of Reference, i.e. "The impact of import liberalization on general economic development ...".

41/ Kalecki, M., "The problems of financing economic development studies", Economic Review, No. 3 (1955), pp. 1-22, and Shafaeddin, S.M. (1991), "The effectiveness of nominal devaluation: the influence of the level of income" in Kirkpatrick, C., R. Adhikari, and J. Weiss, (eds), Industrial and Trade Policy Reform in Developing Countries (New York: Manchester University Press, 1992).

42/ Khan, M.S. and M.D. Knight, "Import compression and export performance in developing countries", The Review of Economics and Statistics (1988), pp. 315-321.

Annex I

OECD: Imports of Unprocessed Commodities from Developing Countries
($million in 1988)

Product	World	Devg Cty	Africa	Lat Amer	Asia	E Eur	LDDC
Coffee	9,123	8,800	2,082	6,063	655	1	1,016
Tea	927	795	276	36	482	-	65
Cocoa	1,885	1,828	1,259	254	309	-	50
Spices	703	637	85	97	446	17	21
Oilseeds	6,489	2,300	73	1,926	276	182	50
Rice	30	1	-	-	1	-	-
Nuts	1,838	1,133	45	156	932	6	12
Fruits	9,514	5,578	708	3,943	907	77	37
Fish	20,782	10,868	1,310	3,039	6,462	559	540
Essential Oils	27	7	1	4	2	-	-
Wood	21,315	5,734	1,116	558	3,808	2,312	81
Rubber	4,715	3,144	257	66	2,816	119	1

Source: UNCTAD secretariat calculations.

Annex II

SOURCE OF INFORMATION AND DATA TO ASSIST THE AD HOC WORKING GROUP TO IDENTIFY PRODUCTS AND EXPORT MARKET OPPORTUNITIES FOR DEVELOPING COUNTRIES

The UNCTAD secretariat has an extensive capability to provide information and data that might be of use to the Ad Hoc Working Group. This annex briefly describes the types of data that can be provided on fairly short notice. In addition, of course, the secretariat is prepared to supply other specific information and data that might be requested by the Working Group.

The secretariat has a comprehensive database containing information on trade flows, tariff rates, and non-tariff measures by country and by product (defined according to national tariff schedules, including the harmonized tariff system). The main source of trade statistics are 22 importing markets: the EC as one; 10 other developed countries - Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United States; and 11 developing countries (or territory) - Brazil, Colombia, Hong Kong, Indonesia, Malaysia, Mexico, Philippines, Republic of Korea, Singapore, Thailand and Venezuela. The database is maintained and updated on the United Nations mainframe computer in Geneva.

The secretariat has developed several applications of this database some of which require mainframe computing capabilities while others involve personal computer (PC) processing of datasets derived from the database. Since the harmonized tariff system (HS) is uniform across the 22 importing (or market) countries at the 6-digit level of aggregation, the secretariat can provide most information at this level of aggregation as well as at the national tariff line level. These applications will be discussed in turn.

Mainframe applications: Market Access

Data can be produced for each of the 22 importing or market countries by HS product (national tariff line). The variables for which data can be produced include:

(a) trade flows (value, quantity and market share) from individual supplier countries, from country groupings, from all developing countries combined, and from major suppliers;

(b) tariff rates (MFN rate, preferential rates as applicable, and actual tariff rates applied) on imports from the various country lists as described in (a) above;

(c) non-tariff measures (type of measure, source of information, date of initial application of the measure, date of termination if applicable, and list of exporting countries against which the measure is applied).

Major export products

Data can be produced on imports into selected market countries (as an aggregate) of individual 6-digit HS products (any number of importing trading partners can be selected). The variables for which data can be produced include:

(a) list of products in descending order of export value to the countries;

(b) export value with product share of the total group imports from the designated country.

Table 3. Major export products and competing suppliers

Data can be produced on imports into selected market countries (as an aggregate) of individual 6-digit HS products (any number of importing trading partners can be selected). The variables for which data can be produced include:

(a) for any selected 6-digit HS product aggregation, export value to each of the market countries, the selected exporter's market share, and applicable tariff rate;

(b) total imports into each of the market countries;

(c) a list of the five top competing suppliers, their share of the export market, and applicable tariff rate.

PC applications: TRAINS software.

Information on market access and products of export interest may be produced using the TRAINS software package developed by the UNCTAD secretariat; the input database is the same as for the mainframe applications. The output includes information on exports from a selected exporting country by product (6-digit HS aggregation) into several importing countries.

PC Applications: SMART software.

Estimates of the trade expansion opportunities deriving from the liberalization of tariffs or non-tariff measures can be calculated using the SMART software. The estimates are for a designated importing market country. Products can be selected for analysis using various criteria such as product description, trade values in excess of a specified value or market share, products with tariff rates above a specified ad valorem level, or some combination of criteria.